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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 001361

SIPDIS

DOE FOR GEORGE PERSON

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TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [KCRIM](#) [IZ](#)
SUBJECT: (C) PRT SALAH AD DIN: MOBILE FUEL STATIONS SELL
FUEL STOLEN FROM BAYJI OIL REFINERY

REF: A. 09 BAGHDAD 546
[B. 09 BAGHDAD 412](#)

Classified By: PRT Salah ad-Din Leader Richard Bell, reasons 1.4(b,d)

This is a PRT Salah ad Din reporting cable.

[1](#). (C) SUMMARY: Northern Refineries Company Director General Ali Obeidi briefed the Salah ad-Din (SaD) Provincial Council May 13 on improvements in fuel refining and distribution at the Bayji Oil Refinery (BOR). Provincial Council members asked Obeidi to hire more workers at the BOR and ensure that every qada (note: a GOI administrative district below the province) receives its proper fuel allocation. During the meeting, Obeidi alleged that mobile fuel stations, a recent private-sector market innovation that has improved fuel availability in many areas of SaD, are being used to sell stolen or misallocated fuel from the BOR (vice fuel imported legally from Turkey). In a separate meeting with the PRT, Provincial Investment Commission Chairman Jowhar al-Fahal, who helped establish the mobile fuel stations, denied that the mobile stations systematically sell stolen fuel, but he admitted that he does not yet have the ability to verify that assertion by testing their product. The PRT will impress upon the Provincial Investment Council the urgency of ensuring that the current scheme is not perverted into a front for "laundering" black market fuel from the BOR. END SUMMARY.

PC PUSHES BOR DG FOR JOBS, FUEL, TRANSPARENCY

[2](#). (C) In connection with a May 13 Provincial Council (PC) meeting on essential services, PC Chairman Ahmed Abdullah Abid Khalaf (Abu Mazen) requested Ali Obeidi, Director General of the Northern Refineries Company, to meet with the PC to answer questions regarding fuel distribution. (NOTE: As the DG of a national asset, Obeidi was not obligated to comply with this request; he insisted that Coalition Forces personnel accompany him to the meeting to ensure that the PC treated him with respect. END NOTE.) Obeidi opened the meeting by briefing the PC on improvements in fuel production and distribution at the refinery. Obeidi said that the BOR has hired over 3,000 people in the last year, many of whom are SaD residents.

[3](#). (C) In response, Abu Mazen praised Obeidi for taking action to improve fuel production and distribution at the BOR and asked the DG to create more jobs for SaD residents. Abu Mazen criticized a 2007 decision by the Ministry of Oil to transfer several distribution managers, who were accused of corruption, to jobs outside of SaD. Abu Mazen said that transferring the distribution managers was unfair, since none of them had been officially charged with corruption or put on trial. He added that, he too, had been falsely accused of involvement in fuel smuggling merely because he lived in al-Hajaj, a village that is widely perceived as being

associated with corruption at the nearby BOR.

MOBILE FUEL STATIONS SELL STOLEN FUEL

14. (C) Several of the PC members questioned Obeidi about efforts to curb corruption within the fuel sector in SaD and complained about the limited availability of subsidized fuel at government stations in their qadas. In response to a question from PC member Ali Abdullah Salih al-Ajili of the IIP about rumors that mobile fuel stations were being used to sell stolen government fuel allocations, Obeidi said that his engineers had tested samples from 10 randomly selected stations to determine where they had been refined (ref B). QThe tests showed that 8 out of 10 were selling fuel that was produced at the BOR, while only 2 sold fuel imported from refineries in Turkey - as all are supposed to do.

PIC DEFENDS STATIONS, SAYS IT LACKS TESTING RESOURCES

15. (C) PRT Econ Section Chief met with Provincial Investment Chairman Jowhar al-Fahal on May 15 and asked him for his response to the concerns raised by Obeidi (ref A). Jowhar said he had heard of Obeidi's comments to the PC and acknowledged that some of the individual station managers may be selling black market fuel to increase their profits, since the retail profit margin on stolen or misallocated fuel from the BOR was much greater than the profit margin from fuel imported from Turkey. He insisted that most of the station owners, however, are selling fuel legally imported from Turkish refineries as mandated by the investment agreement.

BAGHDAD 00001361 002 OF 002

He said that he had requested funding from the National Investment Commission (NIC) so that he could test fuel at the mobile stations to ensure that it was not stolen, but that the NIC had not given him any money for this purpose. He said he would purchase testing equipment with his own funds if the NIC did not respond to his request, so as to preserve the integrity of the investment project. Jowhar added that if he found evidence that any specific station owners were selling stolen fuel, he would remove them from the investment project.

BACKGROUND ON MOBILE FUEL STATIONS

16. (C) The Salah al-Din (SaD) Provincial Investment Commission (PIC) negotiated the deal that created the mobile gasoline stations in November 2008. According to the PIC, they received the rights to import fuel from refineries in Turkey and place the mobile stations at over 200 locations in SaD, which were given as land allocation at no cost by the Ministries of Agriculture and Finance. The stations, which comprise 10,000-liter containerized units equipped with fuel pumps, rapidly became ubiquitous throughout SaD. In the first few months, the mobile stations produced textbook free-market outcomes, including a 33 percent reduction in the price per liter, improvements in fuel quality, and efforts to add value with the types of motorist services available at service stations in other countries.

COMMENT

17. (C) Fuel distribution remains a primarily "grey market" activity in SaD with many degrees of illegality and criminal activity. The PIC may believe its claim that the black market activity is limited to individual owners, rather than an organized criminal enterprise, but cannot verify it in the absence of testing. Furthermore, we have heard from many Iraqi contacts that the mobile stations have made quality fuel more consistently available in many neglected areas of SaD. The PRT sees competition in fuel distribution as serving the public better than a state-run monopoly, and will

impress upon the PIC the urgency of ensuring that the current scheme is not perverted into a front for "laundering" black market fuel from the BOR.

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